

Message Text

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FM SECSTATE WASHDC
TO AMEMBASSY MEXICO IMMEDIATE

C O N F I D E N T I A L STATE 305363

LIMDIS

E.O. 11652: GDS

TAGS:ENRG, MX

SUBJECT: MEXICAN NATURAL GAS: ROEL'S TALK WITH
SCHLESINGER

1) FOREIGN SECRETARY ROEL MET WITH ENERGY SECRETARY
SCHLESINGER DEC. 21 TO DISCUSS THE PROPOSED IMPORT OF
MEXICAN NATURAL GAS INTO THE US. STATE DEPUTY
ASSISTANT SECRETARY BOSWORTH JOINED SECRETARY
SCHLESINGER FOR THE MEETING.

2) ROEL CONTINUED TO PUSH FOR A PRICE TIED TO THE
COST OF NUMBER 2 FUEL OIL, A FORMULA WHICH WOULD
PRODUCE A PRICE OF 2.60 DOLLARS TO 2.80 DOLLARS PER
THOUSAND CUBIC FEET (MCF) NOW, RISING AS THE OPEC
OIL PRICE RISES. HE SAID THAT MEXICO WOULD HAVE
GREAT POLITICAL DIFFICULTY ACCEPTING A LOWER PRICE
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AND ARGUED THAT THE US GAS COMPANIES WITH WHOM THE
MEXICANS HAVE BEEN NEGOTIATING THE ACTUAL SUPPLY
CONTRACTS ARE WILLING TO ACCEPT THE MEXICAN PRICE
FORMULA. ROEL CLAIMED THAT MEXICO COULD USE THE GAS
FOR FUEL DOMESTICALLY, RATHER THAN EXPORT IT TO THE
US. (IN FACT, ROEL IS PROBABLY AS AWARE AS WE ARE
THAT THE ECONOMICS MAKE IT MUCH MORE ADVANTAGEOUS

FOR MEXICO TO SELL ITS GAS TO THE US.)

3) IN RESPONSE, SCHLESINGER POINTED OUT THE POLITICAL DIFFICULTY IN THE US WITH ANY GAS PRICE AS HIGH AS THAT PROPOSED BY THE MEXICANS. THE PRESIDENT IS HAVING GREAT DIFFICULTY GETTING THE PRICE FOR NEW DOMESTIC GAS UP TO 1.75 DOLLARS. MOREOVER, THE US MUST BE SENSITIVE TO THE FACT THAT WE BUY SUBSTANTIAL QUANTITIES OF GAS FROM CANADA AT 2.16 DOLLARS PER MCF. AGREEMENT ON A HIGHER PRICE WITH MEXICO WOULD ALMOST CERTAINLY LEAD TO A EQUIVALENT INCREASE IN THE CANADIAN PRICE.

4) SCHLESINGER ALSO POINTED OUT THAT NOWHERE IN THE WORLD DO PRODUCERS GET BTU VALUE FOR NATURAL GAS. EVEN IN THE UNREGULATED US INTRASTATE MARKET, THE AVERAGE PRICE FOR NATURAL GAS IS CURRENTLY ONLY ABOUT 1.75 DOLLARS TO 1.80 DOLLARS PER MCF. WITH REGARD TO THE US GAS COMPANIES, SCHLESINGER STRESSED THAT THEY PARTICIPATE IN A REGULATED INDUSTRY IN THE US AND THAT ANY IMPORT CONTRACTS MUST BE APPROVED BY US REGULATORY AUTHORITIES.

5) SCHLESINGER REITERATED TO ROEL THE SUGGESTION THE STATE/DOE TEAM MADE TO THE MINISTRY OF PATRIMONY IN MEXICO CITY ON DECEMBER 8. WE WOULD AGREE TO A PRICE OF 2.60 PER MCF WHEN THE GAS BEGINS FLOWING IN SUBSTANTIAL QUANTITIES IN 1980. THAT PRICE WOULD THEN BE ESCALATED, CONFIDENTIAL

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FOR EXAMPLE, ON THE BASIS OF THE US WHOLESALE PRICE INDEX. THIS WOULD LIMIT OUR VULNERABILITY TO A RAPID INCREASE IN THE CANADIAN PRICE AND STILL ENABLE THE MEXICANS TO SAY THEY HAVE NOT ACCEPTED LESS THAN 2.60 PER MCF. ALTERNATIVELY, WE WOULD ACCEPT A 1978 PRICE AT THE CANADIAN LEVEL OF 2.16 DOLLARS, WITH ANNUAL ESCALATION ON SUCH A BASIS AS THE WHOLESALE PRICE INDEX.

6) THERE WAS NO AGREEMENT ON NEXT STEPS. ROEL SAID THE MEXICAN GOVERNMENT WOULD HAVE TO STUDY THE SITUATION. VANCE

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